CRS in APAC – Are Organisations Ready?

2016 Market Survey

IHS Markit™ Regulation Asia

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Hot on the heels of FATCA, the CRS (Common Reporting Standard) due diligence requirements came into effect in India and Korea earlier this year. In 2017, it will take effect in ten more APAC jurisdictions, including Australia, China, Hong Kong, Japan and Singapore. However, although these commencement dates are fast approaching, the industry has yet to see widespread adoption of CRS-related solutions.

Developed by the OECD and founded on the Automatic Exchange of Information framework, CRS requires financial institutions to enhance data collection and report to local authorities a client's tax status, assets and income streams.

To shed light on what issues may be holding back the development and adoption of CRS solutions, Regulation Asia and Markit | CTI Tax Solutions conducted a joint survey of legal, tax, risk, compliance and management professionals in APAC.

The results highlight two distinct issues. First, regulators are struggling with how to affect reporting and due diligence requirements into domestic law, including enacting a legal basis for the exchange of information, while ensuring data protection and confidentiality safeguards are maintained.

Second, financial institutions are challenged with determining how to design and/or enhance their IT infrastructure to collect, validate and monitor client information for ongoing compliance and reporting, without taking on enormous IT-related expenditure.

Balancing local data protection and global reporting requirements

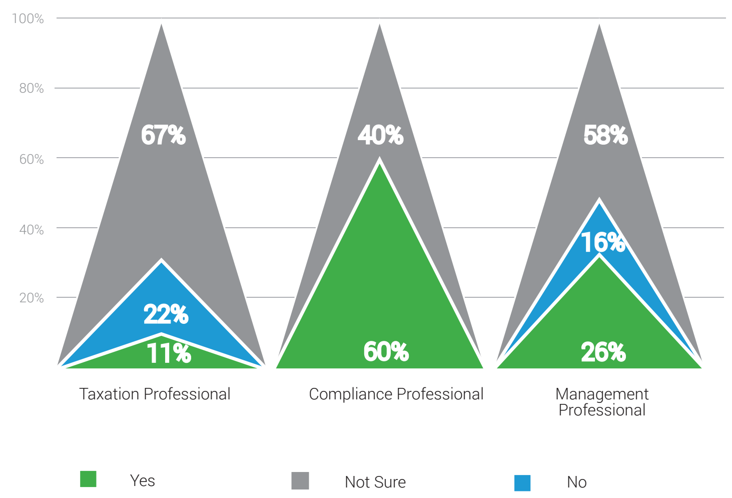
How local regulators choose to define CRS requirements will impact how financial institutions approach their compliance obligations, as they must abide by both local data protection rules and global reporting requirements.

Implementing legislation that addresses some very strict local data privacy laws will be an important consideration. Brad Maclean, head of research at Regulation Asia, says: "There are a number of APAC countries that demand robust data repositories to protect confidentiality and safeguard data. Indonesia and China, for example, have strict rules on where and how personal data should be stored."

Indonesia's Government Regulation No. 82/2012 says electronic transactions and systems, data and disaster recovery centers for public services must be located within the country. Meanwhile, 'The Great Firewall of China' restricts the amount of information that can enter and leave the country. Australia also has very strict data protection regimes.

The survey results show balancing these data and information requirements with global reporting standards is one of the areas with the most uncertainty for financial institutions. This concern is most prevalent among institutions in China and Australia; with 44 percent and 50 percent of respondents "not sure" these jurisdictions will in fact implement CRS regulations and guidance by the 2017 deadline.

Do you expect CRS to conflict with local data protection/outsourcing rules in Asia-Pacific if functions or services are outsourced?



"People really don't understand data protection rules and how they impact their operations, and it's possible that a lack of clarity around this issue is impeding progress towards widespread adoption of the Standard," says Maclean.

Indeed, this lack of clarity further creates doubt among respondents as to whether or not APAC jurisdiction authorities will meet their own responsibilities under CRS. There is particular uncertainty around incorporating the Standard's requirements into domestic law and developing a legal basis for information exchange.

“Local regulations on CRS implementation are intended to remove any confusion about their interaction with existing rules on data privacy and protection. Otherwise, it would render the regime ineffective. The focus for financial institutions should now be on the implementation instead.”

Michael Muncaster, director
Markit CTI Tax Solutions

Management level respondents are most concerned about this, making up 40 percent of respondents who are “not sure” if CRS will be implemented as planned. However, ‘front-line’ taxation and compliance professionals were less likely to have this concern.

There is also a perception in some countries that CRS is less relevant to them – 40 percent of respondents in China and 67 percent in Hong Kong feel this way.

Michael Muncaster, director of Markit CTI Tax Solutions comments: “This result surprised us as it seems to be at odds with many other markets and the general view is that CRS will impact the financial services industry collectively. One possible reason for this is the differing degrees of pressure or focus by local regulators thus far. Make no mistake, however, institutions will need to adapt in the medium to longer term.”

On the varying degree of uncertainty around local regulation, Muncaster says: “Based on our knowledge of regional regulators, we believe regulatory concerns will be ironed out. Local regulations on CRS implementation are intended to remove any confusion about their interaction with existing rules on data privacy and protection. Otherwise, it would render the regime ineffective. The focus for financial institutions should now be on the implementation instead.”

Managing the cost and complexity of implementation

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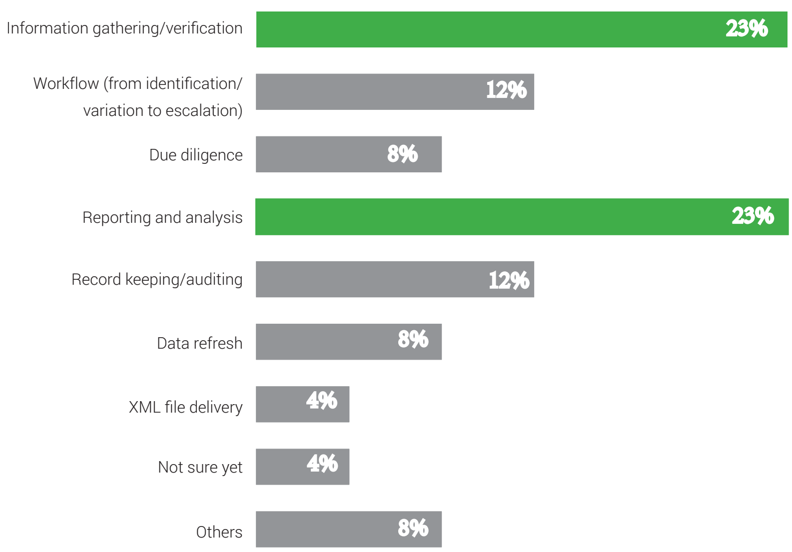
Which of these technical elements of CRS preparation do you plan to automate?



For those organisations actively looking at how to meet CRS requirements, many are finding their FATCA solutions insufficient. This is driving a need for costly infrastructure enhancement, with more than half of respondents expecting CRS to be more expensive per client than FATCA and being driven to consider investing in more robust and flexible information technology architecture that can adapt to evolving regulations and new countries coming on board.

With this in mind, the survey explored priorities for financial institutions looking to automate in preparation for CRS. Out of nine potential areas, "information gathering/verification" and "reporting/analysis" were the top two automation priorities.

Muncaster says: "This is not surprising given the repetition involved in client onboarding and the ultimate reporting obligation. However, the complexity comes not only in the regulation but in the organisational impact.

"The CRS requirements cut across a financial institution's systems and processes, including client or customer information gathering and verification; ongoing monitoring (red-flagging and escalating potential changes in the status of an account holder), the reporting obligations themselves; record keeping and auditing; and the refresh of client data."

Is the industry ready?

The answer is maybe – with some more support.

"What is clear from the survey is that without exception across the region, financial institutions are expecting clear guidance from their regulators on how privacy and data concerns will be managed, as well as clarity of interpretation of law to enable compliance programs to be developed with certainty," Muncaster notes.

"Furthermore, from a system and process perspective, implementing a robust compliance solution for CRS cannot be achieved through reliance on the approach taken for FATCA. What companies need to do now is to identify which solutions they require and deploying them in an efficient and timely manner so as to meet CRS deadlines."

Methodology

Regulation Asia and Markit | CTI Tax Solutions surveyed financial institutions on the Common Reporting Standard (CRS) to give participants a "state of readiness" benchmark and identify emerging trends in its implementation.

The participants were either Asia-based financial institutions or officers of financial institutions outside the region with direct responsibility for Asia-based operations. The research was conducted as a 15-minute online survey with selected follow up phone and in person interviews. Respondents are from 10 jurisdictions in Asia. Nearly half the respondents (46%) are C-level executives and 32% are from financial institutions with more than $50 billion in assets under management.

We thank all survey respondents and interviewees for their time and insight.

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About Regulation Asia (www.regulationasia.com)

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